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SUBJECT: KAZAKHSTAN'S CHIEF WTO ACCESSION NEGOTIATOR SPEAKS ON
ACCESSION, ECONOMIC POLICIES

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¶1. (U) Summary: In a February 2 meeting, Deputy Trade Minister and Kazakhstan's chief WTO accession negotiator Zhanar Aitzhanova briefed Ambassador Ordway on the status of economic reforms tied to accession and the Ministry's current views on economic policy. End summary.

WTO Accession

¶2. (SBU) Kazakhstan has submitted its goods and services offer, said Aitzhanova. "We did our best to take your comments into consideration," she noted, adding that "some issues still remain." On telecommunications, Aitzhanova remarked, "we are still somewhat inflexible, since this is a domestic industry in need of protection." She expressed optimism that "not too many problems" in regard to accession remain in the financial sector. With respect to the issue of foreign banks' ability to open branches in Kazakhstan, she commented, "We want to support our banks. But we have three dominant banks; interest rates are still quite high. So, this sector needs to open up."

¶3. (SBU) Aitzhanova added that Kazakhstanis have started work on technical issues, such as sanitary and phytosanitary measures (SPS), with help from the EU, and on customs issues under the umbrella of the Central Asia Trade and Investment Framework Agreement (TIFA). WTO requirements dictate that any laws affecting trade must be available in English. "We lack the capacity," Aitzhanova said, "to translate our laws from Russian or to perform economic analysis of our WTO commitments."

¶4. (SBU) On labor issues, Aitzhanova said, "we are still very sensitive." Kazakhstan is "unprotected," she noted, due to its geography - particularly its proximity to China - and the lack of sophisticated immigration or border controls. She said that the idea of maintaining a quota system for unskilled labor only is under consideration. However, the notion of establishing regulations, such as requiring companies to advertise in Kazakhstani newspapers before hiring foreign workers, is not being accepted.

15. (SBU) Before WTO accession, Aitzhanova said, the key is developing policies; after accession, the focus will be on enforcement. Aitzhanova characterized her new boss, the recently appointed Minister of Industry and Trade Vladimir Shkolnik, as an energetic, quick learner with a sense of humor, and remarked that he is not interfering with her work. She noted that Shkolnik strongly supports the Industrial Innovative Development Strategy and sees Kazakhstan as an energy-producing state that should not be ashamed that energy represents 80% of its exports. "The key," Aitzhanova commented, "is to use the [energy] revenues well to develop other sectors without overstretching our resources, financial and human."

16. (SBU) Turning to agricultural subsidies, Aitzhanova said, "we should not reduce them but make them better." She agreed with the Ambassador that developing the textile industry is a problematic idea. Textiles, she noted, are a water-depleting sector with the resulting potential for sparking regional conflict.

17. (SBU) Kazakhstan's trade surplus, Aitzhanova said, constitutes a quarter of its GDP. "But," she stated, "until the end of 2004, we did not have a regulatory framework on trade. Focusing on trade is, for us, a necessity as well as a commitment to WTO accession." On e-commerce, Aitzhanova added, Kazakhstan still lacks a regulatory framework.

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Clubs: TIFA and Eurasian European Community

18. (SBU) Aitzhanova responded positively to the Ambassador's suggestion that Kazakhstan take a leadership role in TIFA. Kazakhstan, she said, can share its experience in sector reform, such as banking, and in clearing a path toward joining the WTO. "It is one thing when the U.S. comes to teach," Aitzhanova observed, "and another when Kazakhstan is succeeding in action." Kazakhstan is considering focusing on financial system issues - not only banking and insurance but also exchange rate and currency management. Aitzhanova added that Kazakhstanis are considering holding a regional conference on these topics in Almaty. "This," she said, "is crucial for facilitating cross-border trade and investment." The Eurasian Economic Community is also important to Kazakhstan, she concluded, because of Kazakhstan's "strategic" dependence on Russia in shipping its goods to other countries, particularly the EU.

Comment

19. (SBU) Comment: Aitzhanova remains optimistic that Kazakhstan will be able to complete all WTO requirements in 2006. However, the GOK's inflexibility on the telecommunications sector, among others, could make this deadline difficult to meet. End comment.

